LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 5 November 2008

Session 3

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

27th Meeting 2008, Session 3

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

*Alasdair Allan (Western Isles) (SNP)

COMMITTEE MEMBERS

*Bob Doris (Glasgow) (SNP)
Patricia Ferguson (Glasgow Maryhill) (Lab)
*David McLetchie (Edinburgh Pentlands) (Con)
*Mary Mulligan (Linlithgow) (Lab)
*Jim Tolson (Dunfermline West) (LD)
*John Wilson (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

Brian Adam (Aberdeen North) (SNP)
Paul Martin (Glasgow Springburn) (Lab)
Alison McInnes (North East Scotland) (LD)
Margaret Mitchell (Central Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Mike Foulis (Scottish Government Housing and Regeneration Directorate)
Graham Owenson (Scottish Government Public Service Reform Directorate)
Gavin Peart (Scottish Government Directorate for the Built Environment)
Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Health and Wellbeing)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Martin Verity

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 6

Scottish Parliament

Local Government and Communities Committee

Wednesday 5 November 2008

[THE CONVENER *opened the meeting at 10:00*]

Budget Process 2009-10

The Convener (Duncan McNeil): Good morning and welcome to the 27th meeting in 2008 of the Local Government and Communities Committee. As usual, I remind everyone to switch off their mobile phones and BlackBerrys.

Agenda item 1 concerns the draft budget for 2009-10. I welcome Nicola Sturgeon, the Cabinet Secretary for Health and Wellbeing. She is accompanied by Scottish Government officials: Frances Wood, deputy director of social inclusion, and Mike Foulis, director of housing and regeneration. I give the cabinet secretary an opportunity to make an opening statement.

The Deputy First Minister and Cabinet Secretary for Health and Wellbeing (Nicola Sturgeon): I sincerely hope that I am not the only one around the table who is feeling the effects of being up half the night watching the American presidential election results. If I am, you will no doubt have some fun with me as a result.

The backdrop to the discussions that we will have this morning is the unprecedented turmoil in the financial markets and the impact that that is having, particularly on the housing market. Despite the Scottish Government's limited economic powers and the tightest spending settlement since devolution, we have taken decisive action to help existing home owners and those who are looking to build, buy and sell houses.

The draft budget supports the range of responses to which the Government has committed in recent months. The actions that we have taken include the commitment of £250 million over three years to the low-cost initiative for first-time buyers. Within that, there is the temporary expansion of the open market shared equity pilot to cover all of Scotland, with next year's funding increased from £24 million to £60 million. Over the next two years, £25 million will be provided to set up a new home owners support fund to help more home owners who face repossession. We are also bringing forward up to £100 million for affordable housing from 2010-11 into this year and next year. Although we acknowledge the impact of the credit crunch on some parts of the housing association sector, overall we believe that the sector is in a relatively good position to weather the storm. However, it remains crucial for us to continue to work with the sector to reform the Government's investment in affordable housing so that we secure as many houses as possible from that investment.

On the regeneration element of the draft budget, we are investing £87 million in the period 2008-11 in our urban regeneration companies. The largest investment, which amounts to £57 million over the three years, will be in the Clyde gateway initiative, which will play a key role in achieving a lasting legacy from the 2014 Commonwealth games. In addition, £145 million a year is being invested through the fairer Scotland fund to help community planning partnerships to tackle poverty and deprivation, including financial exclusion.

Our purpose and national performance framework are about securing progress and improvements in the life experiences of everyone in Scotland. That means that we must address the inequalities that too many in our communities face, whether they relate to income and health or arise from matters such as background, gender, race or disability. We are committed to tackling poverty and disadvantage and the structural and attitudinal barriers to equality and to securing a fairer and more equal Scotland.

Members will be aware that our framework to tackle poverty, inequality and deprivation in Scotland will be published shortly, following a period of public consultation with key groups, individuals and communities that are most affected by poverty. The framework will represent a statement of intent from the Scottish Government and the Convention of Scottish Local Authorities to work together in a new way to ensure that more people in Scotland can share in a better and fairer way of life and can contribute to the Government's key objective, which is to increase sustainable economic growth in our nation.

The Convener: Thank you. It was a late night for many of us, but the result was worth it, I am sure you agree. You mentioned several issues that the committee wishes to explore with you about the budget and timings.

Alasdair Allan (Western Isles) (SNP): I will resist commenting on the American election but, for once, my views are much in accordance with those of the convener.

One issue is the manner in which budgets are presented. In future, will the Government present figures for the original spending review and the draft budget in both cash and consistent real terms, so that fuller comparisons can be made?

Nicola Sturgeon: I know that the committee is going to speak to the Cabinet Secretary for Finance and Sustainable Growth later this morning and I am sure that you will pursue those issues with him, given that it is his responsibility to ensure that the presentation of the budget is as full, meaningful and transparent as possible. Certainly, we as a Government are committed to ensuring that the way in which we present our spending plans is open to maximum scrutiny. The committee part of the budget process is extremely valuable. If there is any information whatever that the committee feels is not available in the draft budget document, I am happy to undertake to provide it.

Alasdair Allan: Will you comment generally on the budget for housing and regeneration and how it compares?

Nicola Sturgeon: The overall budget for housing and regeneration compares well with past years. The figures for 2009-10 are more than 24 per cent higher in real terms than those in the 2008-09 budget. Changes have been made to reflect the acceleration of up to £100 million for housing. The housing and regeneration budget covers many aspects and initiatives, which we will, no doubt, go into in some detail. The budget that we have set reflects the great priority that the Government attaches to increasing housing supply across all tenures—an objective that is not made easier in the current financial climate but to which we hold firm nevertheless—and our strong commitment to pursuing previous Governments' determination to spend money effectively to bring about the regeneration of some of our most deprived communities. Overall, I believe that the budget in housing and regeneration reflects those priorities.

The Convener: Our budget adviser has provided a paper that highlights a £60 million cut in real terms in the housing and regeneration budget over the next three years compared with the figures in the spending review. We just got that information this morning. Would you like to comment on it?

Nicola Sturgeon: If you look at the housing and regeneration budget, you can see that in cash terms in 2009-10 there is a 27.8 per cent increase on the previous year. In real terms, that translates to a 24.4 per cent increase. Obviously, the budget has changed from the spending review plans that were published last year to accommodate the £100 million accelerated funding, which comes from 2010-11, of which £30 million comes into this financial year and up to £70 million comes into the next financial year, which changes the profile of spend. The figures that I have quoted reflect that.

John Wilson (Central Scotland) (SNP): The Government has set in train a number of programmes in relation to home ownership and low-cost home ownership. Given the current economic and mortgage crisis that we are going through, is it appropriate that the Government is spending so much on that sort of programme? It might be advisable to put more investment into social housing, rather than low-cost home ownership or supporting the home ownership market.

Nicola Sturgeon: That is a fair point. It reflects the balance of judgments that we must make and will continue to have to make in the next three years. It is important to make a couple of points. Most of the affordable housing investment programme's funding will be spent on supporting affordable housing for rent. That is how it has tended, and will continue, to operate.

As for support for low-cost home ownership, I have always believed that it is right through our affordable housing budget to support housing in a range of tenures. Many people aspire to own their home and it is right that we contribute to supporting that although, in the current financial climate, the judgments that are made might not be identical to those that we would have made at this time last year. As you would expect, we have had discussions with various organisations about how best to respond to the changing financial climate. For example, Homes for Scotland has made it clear that it thinks that continued support for shared equity home ownership is a useful contribution, not just to help individuals into home ownership, but to provide support to the house-building and construction sectors in a difficult time.

We will continue to make those judgments. Given the circumstances that we face, it would be wrong and misleading for any minister to say that any of those judgments is set in stone. We decided to accelerate investment from the third year of the spending review period into years 1 and 2 because that was the right judgment. We will need to keep all our judgments under review as we enter what is for many of us uncharted waters.

David McLetchie (Edinburgh Pentlands) (Con): Good morning, cabinet secretary. It has been suggested that some of the accelerated expenditure of £100 million will be allocated to the purchase of land, to add to the land bank for social housing, and that other expenditure might be on properties that have been constructed, to take some unsold inventory off the books of house builders. Other moneys from the total might be applied directly to construction, to sustain employment in the building industry. Do you have in mind a target for distributing the money among those purposes?

Nicola Sturgeon: We have not set specific percentages for new construction, land acquisition or off-the-shelf purchases. To do that would be wrong, because it is important that we retain the flexibility to allocate the money in response to circumstances.

Having said that, we envisage that the bulk of the money will be used to support new construction. That is important for two reasons. First, all of the additional £100 million will be spent to support our objectives, which means that it is important that it supports housing in areas where it is most needed and projects that fulfil housing need most.

Secondly, ensuring that as much of the money as possible is spent on new construction does not only help us to fulfil a housing need. The view of organisations such as Homes for Scotland is that spending on new construction helps to maintain employment and skills in an industry that is under pressure. We have not set specific percentage targets, but it is safe to assume that we intend to focus more on new construction.

It might help if I run through the money that we have announced, what that supports and further spend that might occur in the next few weeks. Members know that we have announced the allocation of £9 million. Of that, £4 million is to accelerate new construction site starts on six projects in Moray, Dumfries and Galloway, Argyll, the Borders and Fife. The other £5 million is for land purchases by housing associations that will support future development in the Highland area, Midlothian, Argyll, Dumfries and Galloway and South Lanarkshire. We have identified a further £8 million, which we have not announced yet because of commercial sensitivities, as some of that will support off-the-shelf purchases of existing stock.

That leaves about £13 million for this financial year, for which we plan to agree proposals as soon as possible. We are considering how we will spend the £70 million that has been earmarked for next year.

I hope that that answers your question as fully as possible. There are no specific percentage targets, but there is an emphasis, where possible, on new construction.

10:15

David McLetchie: That is helpful. Can you indicate to what extent the housing associations that are buying, or negotiating to buy, off the shelf are obtaining a discount for such bulk purchases on the initial asking prices of the stock that is currently unsold?

Nicola Sturgeon: I am not sure whether I am able to give you a figure on that—perhaps Mike Foulis can do so in a moment. We are trying hard to ensure that if we allocate money for off-the-shelf purchases—as we will—it will not just be in any area. We want to focus on areas in which there is greatest housing need, as it would be wrong to try to spend the money anywhere simply to get it out of the door.

A part of the judgment that we will make in deciding whether to approve proposals will depend on whether housing associations are able to buy at the right price. What constitutes the right price will vary for different proposals and in different areas, but that will be an integral part of the criteria that we apply to the proposals.

I ask Mike Foulis to comment on whether we can give a specific ball-park figure for that.

Mike Foulis (Scottish Government Housing and Regeneration Directorate): Sadly, we cannot, but I will add to the cabinet secretary's comments. When registered social landlords are considering deals to buy off-the-shelf stock, we want to be satisfied that the price that is charged is comparable to the price that they would have paid to build new housing—that is an important benchmark. We do not want to pay more than we would have paid if we were to build new housing. That ties in with the cabinet secretary's earlier point about the need to focus the money on boosting economic activity.

David McLetchie: As matters stand, do you have in your in-tray a series of proposals from social landlords around Scotland who are saying that they would like to buy 20 unsold houses here and 40 there? Is the in-tray full of such proposals?

Nicola Sturgeon: There are a number of proposals. I mentioned earlier the £8 million, which, I hope, we will publicise soon. The reason why we have not done so, as members will understand, is that, particularly in relation to off-the-shelf purchases, there are commercial issues around going public before deals are done. Therefore, a range of off-the-shelf purchases are included in that. The balance of the funding for this year will include other off-the-shelf proposals as well as further accelerated site starts and land acquisitions. It is fair to say that there is a reasonable degree of demand for the funding, as one would expect in the current climate.

The Convener: We have heard about off-the-shelf purchases and land purchasing, but you also mentioned the importance of helping the construction industry. Which projects will begin this financial year that will help the construction sector?

Nicola Sturgeon: Of the £9 million that we have already allocated, £4 million is for accelerated site starts, which, as well as helping us to tackle housing need, will help to maintain employment and skills in the construction sector. I indicated that there are sites in Moray, Dumfries and Galloway, Argyll, the Borders and Fife—I am sure that we can supply the committee with more detailed information on the matter.

The Convener: My question followed on from your broad description. How many of those projects will start this year and benefit the construction sector?

Nicola Sturgeon: All those projects will start this year. I have covered the broad areas, but I am happy to give you the specifics.

The acceleration of the £100 million is an important contribution towards fulfilling housing need and helping a sector that we know is in dire straits. I have never pretended—and never will pretend—that such a proposal can completely fill the gap that the sector faces, given its overall position, but it can make an important contribution, which is why it has been welcomed so warmly.

The Convener: I am happy to receive further detail from you in writing so that we have a greater understanding of what the impact will be this year.

Jim Tolson (Dunfermline West) (LD): Good morning, cabinet secretary. I will continue questions on the £100 million that the Government has brought forward. You touched on some important detail, saying that you plan to spend £30 million this year and £70 million next year. However, as you may have noted from some of the comments that I made to COSLA representatives last week, I am still concerned about the practicalities of delivering the programme either through building new build—it takes time to get land, get planning permission and build the properties—or making purchases off the shelf, to use a phrase that has been used quite a few times this morning. Can you give us an assurance that the money in the budget for 2008-09 and 2009-10, including the extra £100 million, will be spent fully? Are you certain?

To focus on the issue that has not been touched on this morning, bringing the money forward from 2010-11 appears to leave a black hole in future spending plans. What is the Government's plan to ensure that the programme can be sustained and that the overall targets that were set for the three-year budget will be achieved?

Nicola Sturgeon: I assure you that we will spend all of the money that has been budgeted for this year, including the accelerated funding. I hope that that is helpful. Members are aware, but I should have said for the record, that our local authority partners will provide £40 million of the £100 million. COSLA covered that point when it gave evidence to the committee. It finally agreed that contribution of £40 million on 24 October and it spoke to the committee about its ability to use identified slippage on capital projects to ensure that it can make the contribution.

Your second point is reasonable. The £100 million is accelerated funding; it comes from year 3 of the budget into years 1 and 2 and is not additional to the planned spend. Obviously, if we take £100 million into the first two years, we have to pay for it out of year 3, which is why the profile of expenditure for year 3 is now going down. The Government operates within a fixed budget and I will not pretend that if we decide to spend money on one thing or in one year over the three-year period, we do not have to find it from somewhere else or another part of the budget. That is the financial reality within which the Government lives. However, the crucial point is that we are changing the profile of the expenditure. The targets that we have set for approvals—21,500 over the three years—remain unchanged. The budget will continue to support that scale of approvals but will do so on a different profile.

Jim Tolson: I appreciate that answer. I hope that we agree to some extent on what processes are required to achieve your aims. I sincerely hope that the assurance that you gave the committee will come to fruition in supplying housing—particularly affordable housing for rent—but, if there is any slippage into the final year, that will change your programme significantly.

The Convener: Cabinet secretary, I will press you on some detail. Last week, we took evidence that the good news was that COSLA's leaders meeting had agreed in principle that the £40 million should be found. What progress is there on who will contribute to that figure, how they will contribute, how much they will contribute and when it will happen?

Nicola Sturgeon: COSLA had previously agreed in principle to making the money available, subject to discussions that we are having with it on its future influence on the allocation of investment in affordable housing. The full COSLA convention gave final agreement to that on 24 October.

Your subsidiary question to that is about which councils that £40 million will come from. That matter is not for me but for COSLA. My understanding is that on 24 October the convention delegated the detail of that to the COSLA leadership.

COSLA has made it clear to us, and I note from its evidence that it made it clear to the committee, that it is absolutely certain that the resource can be made available from identified slippage in capital projects. However, I am sure that you will appreciate that how COSLA decides to put the funding together from the various local authorities is entirely a matter for it and not a matter on which I could or should instruct it.

The Convener: Do you know whether any Government officials have been in discussion with

COSLA officials on the matter? We were told last week that they would be. Also, can you give us a timeframe and tell us when you expect the money to be in the pot?

Nicola Sturgeon: COSLA's contribution is £20 million in the current financial year and £20 million in the next one. The £20 million for the current financial year is available to be allocated as part of our overall allocation of £30 million.

The Convener: What would you say to the local builders who will not see an acceleration in local programmes and will feel that they are losing out as they see the money going to other areas? Not all local authorities will benefit.

Nicola Sturgeon: Obviously, I do not want to speak on behalf of COSLA on the matter, but it is confident that the money can and will be found from identified slippage. COSLA is not going to slow down other capital projects. Rather, slippage that has already occurred will allow COSLA to accelerate some of the investment.

Mike Foulis: We understand that the question of sourcing the money will be decided at the COSLA leaders meeting at the end of the month.

Mary Mulligan (Linlithgow) (Lab): Good morning. We are talking about bringing forward £40 million of slippage. Although that is welcome, that money would otherwise have been spent on other programmes that local authorities had intended to run. Do you intend to replace that money?

Nicola Sturgeon: I return to Jim Tolson's point. Local authorities will get back the £40 million that they contribute in year 3.

It is not a fair characterisation of the situation to say that the money would otherwise have been spent on different areas. As I understand it from COSLA, the money is coming from identified slippage. It is money that local authorities would not otherwise have been able to spend in the current financial year because of slippage. In any event, all the money will go back to local authorities in year 3. I suppose we would describe it as a loan.

Mary Mulligan: Generally, slippage is from programmes that cannot be enacted in a particular year for legitimate reasons, but clearly that would be planned money for future spend, so I am pleased to hear that point.

I move on to a more general point on the housing budget. There seems to be some uncertainty on the part of a range of stakeholders in housing about what the Government intends to achieve with the spend that it has set out in the budget for new build, improvements and assistance for those who seek housing. We have headline figures but no detail. Can you give us more detail?

Nicola Sturgeon: I am not sure why there should be the confusion or lack of certainty that Mary Mulligan describes. I have already mentioned the clear target that we have set ourselves, which, as I said, has become more difficult to meet, rather than less so, in recent months. The target is to ensure that there are at least 21,500 approvals for houses for social rent over the spending review period from the affordable housing budget. In addition, you will be aware of the £250 million allocation to the low-cost initiative for first-time buyers, and within that the open market shared equity scheme. We anticipate that 1,500 people will be helped into home ownership as a result of that scheme. The overall objectives of our spending plans on housing are clear.

I have already alluded to the fact that the climate has changed since October 2007, when I stood up in the Parliament and launched "Firm Foundations: The Future of Housing in Scotland". Back then, I could not have begun to imagine how different things would be by now. We will have to keep all our plans under close scrutiny to ensure that we give ourselves the best possible opportunity to deliver on the objectives that we have set. We must determine whether there are opportunities for us to spend money differently from how we had envisaged, in order better to meet our objectives and to gain other benefits, such as helping the housing industry. Our objectives are clear. I look forward to a continued dialogue with the committee if any of them change in response to the changing climate.

10:30

Mary Mulligan: You are correct to say that we are in the middle of a changing scenario, but can you tell me how many houses for rent you expect to build in this financial year?

Nicola Sturgeon: We will have between 6,000 and 7,000 completions in this financial year.

Mary Mulligan: The sum of £25 million is available to local authorities to build houses. What progress has been made on that?

Nicola Sturgeon: Good progress has been made. We have agreed with local authorities the principles and criteria that will be used to focus the investment where it is likely to have most impact. As you know, the investment is intended to kick-start or to pump-prime—you may use whatever phraseology you want—new council house building. We have agreed an approach to assessing applications from councils. Shortly—probably in the next couple of weeks—we will write to councils inviting them to set out the details of how they intend to meet the requirements and, in effect, to make bids. We have agreed with COSLA the process for selecting successful bids. COSLA's shared services board will play a central role in that process. I am pleased with the excellent progress that we have made.

David McLetchie: Can you clarify the issue of slippage? To put it in simple terms, let us say that a council is building a school and expected to spend £3 million or £4 million in a financial year on construction costs. If the contractor says that there is a problem and the school cannot be built on time, £1 million or £2 million may not be spent in that financial year and may be deferred to the following year—that is slippage. If the money is not drawn on for the purpose of reprofiling in your affordable investment programme, presumably the council that has the £1 million that is not needed for spending on the construction of the school, because of slippage in the construction timetable, can decide to spend the money on something else in its programme. Is that correct?

Nicola Sturgeon: Yes. It is not for me to say what basic point you are trying to make, but I accept readily that we cannot spend the same money twice. Like any other spending decision, the decision to accelerate spending in one budget pot in one year has an opportunity cost somewhere else, but that is the decision that we have made—rightly, in my view. Many organisations in the sector called on us to accelerate housing investment this year and next; COSLA agrees with our decision. In the circumstances that we face, that is the right judgment. However, if we spend money somewhere, it follows that we cannot spend it somewhere else—especially given that we are operating within a fixed budget. We have to make such judgments on an on-going basis.

David McLetchie: I accept that you are entitled to make such judgments. However, in COSLA's evidence last week there was a suggestion that slippage money from one financial year would never be spent in that year, that councils had no discretion in the allocation of the money and that it would all fall into the next year. The point that I tried to make, which you may have confirmed—you may want to clarify your answer—was that councils, by reaching an agreement with you on this programme and on the allocation of slippage money, have effectively given up the discretion that they would otherwise have had to use the money in other ways at that time.

Nicola Sturgeon: It is not for me to speak for COSLA and I am desperately trying not to do that; COSLA gave its evidence to the committee last week. No doubt you can pursue the point about its discretion over the amount of slippage with the finance secretary later this morning, but I would be more than happy to come back to you with some firm and more detailed information about the rules that apply to local government expenditure, and the discretion that a local authority has if it does not spend money in one year, or if the money automatically gets carried forward to the next year.

David McLetchie: They are supposed to have lots of discretion; there is no ring fencing.

Nicola Sturgeon: They certainly have much more discretion now than they have ever had before.

David McLetchie: We shall explore that. Thank you.

Bob Doris (Glasgow) (SNP): We have heard a lot about accelerating investment in the construction sector. I want to move on a step and talk about how we keep home owners in their houses when they are struggling with their mortgages. I would also like more information about the Government's mortgage to shared equity scheme. How much money has been put into that and how do you anticipate that the system will work?

Nicola Sturgeon: As you know, we continued the mortgage to rent scheme that was established under a previous Administration in 2003, and we decided to subsume it within our home owners support fund. In addition to giving people the opportunity to move from mortgage to rent, we are giving them the additional opportunity, subject to certain criteria, of moving from mortgage to shared equity. We are working out the detail of how that scheme will work and we intend to publish the rules and criteria that will apply during the next few weeks. We will spend £25 million during the next two years to support mortgage to rent and mortgage to shared equity. The fundamental principle behind both schemes is that people should be enabled to remain in their homes, an option that would not necessarily be available to them in different scenarios.

Bob Doris: The £25 million is a significant investment in keeping home owners in their homes rather than making them face repossession. How far will that £25 million stretch? Will 100 or 200 home owners be able to access that? Do we have any projections on that?

Nicola Sturgeon: How many people the £25 million will be able to help will depend on a range of circumstances, such as the value of houses and so on. I can tell you the number that has been supported in previous years under the mortgage to rent scheme. In 2006-07, with less funding than we are committing just now, 173 people were able to stay in their own homes and move from mortgage to rent. Obviously I am talking about historical figures, but until now, everyone who has applied to the mortgage to rent scheme and has been deemed to be eligible under the criteria, has been assisted.

Of the £25 million, £10 million will be allocated during this financial year and £15 million will be allocated in the next financial year.

Bob Doris: Is the £25 million a reprofiling of your overall budget, is it additional money, or was it pre-planned? I am trying to get at whether the money is a response to the international financial climate.

Nicola Sturgeon: It is a response. I announced the £25 million support fund during my statement to Parliament in June this year in response to the consultation on "Firm Foundations: The Future of Housing in Scotland". That was in anticipation of a worsening situation in the housing market and, obviously, it has worsened considerably since then. The £25 million is an increase in resources. The spend in 2007-08 on mortgage to rent was less than £10 million, so we are spending £10 million during this financial year and that will increase to £15 million in the next.

Mary Mulligan: You might be aware that at question time last week I asked the Minister for Communities and Sport about the position of people who fall into negative equity, who you had said would be able to apply for the mortgage to rent scheme. However, clearly there will be a gap in funding. How do you envisage that being dealt with?

Nicola Sturgeon: I do not underestimate for a second the problems that are posed by an increase in the number of cases of negative equity. We are all aware of the issues that arise, not least the distress that is caused to individuals. I will repeat what I said last week: the fact that someone is in negative equity in and of itself does not prevent them from accessing the mortgage to rent scheme. Obviously, if there is a shortfall in the equity available, some form of arrangement would have to be entered into between the home owner and the lender. Some lenders might choose to write off the remainder, whereas others might set up repayment arrangements. Of course that requirement will exist in cases of negative equity.

As I have said, the objective of the mortgage to rent scheme is to help people stay in the homes that they owned. It does not necessarily take away people's debt; it simply allows that debt to be managed in a way that allows them to stay in their homes. In cases of negative equity, other arrangements will be required. As is the case with all our spending plans, those that relate to this area of government must be kept under close scrutiny as the situation develops, so that we can use the resources and powers that are available to us to do the best that we can to help people.

The ultimate responsibility and the most powerful levers for helping people who face repossession or who are in negative equity lie with the United Kingdom Government, not least through the social security system. We have long argued that the rules around income support for mortgage interest should be changed to allow support to kick in earlier. The UK Government has now agreed to that, but the provision will not come into force until April next year.

For our part, we will continue to do as much as possible to help people who are in difficult circumstances and to lobby as hard as we can for action to be taken elsewhere, when we think that that is appropriate.

Mary Mulligan: Have you had any discussions with mortgage lenders about bridging that gap?

Nicola Sturgeon: We have had discussions with the Council of Mortgage Lenders on a range of issues, and we will continue to do so.

Mary Mulligan: Have you had discussions on that specific issue?

Nicola Sturgeon: I have not, but officials will have had a range of discussions with the Council of Mortgage Lenders. As we continue to develop the arrangements for the home owners support fund, there is no doubt that that is one of many issues that we will require to discuss with mortgage lenders as we make progress on such matters.

The Convener: When Mary Mulligan asked you about the number of houses for rent that you expected to build this year, you gave the number of completions. What is the difference between a house being built and a house being completed? How many houses for rent will be started this year?

Nicola Sturgeon: We use two standards of measurement. For most people, the number of completions is what matters most. The second measure is the number of approvals, whereby houses are given the go-ahead and resources are committed to them. The number of approvals this year is estimated to be around 7,000.

The Convener: How does that compare with previous years?

Nicola Sturgeon: It is fairly in line with the figures for recent years.

The Convener: Among the other issues that we discussed last week was the £25 million that is being made available to local authorities for council house building. Can you tell us where we are at in that regard? The evidence that COSLA gave us on the subject at last week's meeting was not very good because the organisation's housing spokesperson was not present. That is not my judgment—the COSLA witnesses confessed to us that they had brought the wrong people along to discuss those issues. They said that discussions were continuing, but they were unclear about who would benefit in local authority terms. They told us that the issue was still subject to discussions between leaders. It might be helpful if we could get an update from you on that.

10:45

Nicola Sturgeon: I think that the record will show that I have already given the committee that update, but I am more than happy to run through it again.

We have made very good progress with COSLA and discussions are on-going. We have agreed principles and criteria that will allow us to focus the £25 million investment where we consider it will have most impact. An approach to assessing applications has been developed and agreed, and we intend to write to councils within the next couple of weeks, inviting them to set out the details of their applications. We have also agreed with COSLA the process for selecting the successful bids for that money.

The last time that I gave evidence to the committee, I might have run through the broad principles that we have agreed with COSLA for allocating this money and deciding which local authorities are able to access it. If you want, convener, I am more than happy to run through those principles again.

The Convener: Alasdair Allan led with a question on those principles last week because we wanted to have some understanding of what they were and of the local authorities that were likely to benefit in the bidding process.

Nicola Sturgeon: I am not able today to give you the names of local authorities that will benefit from this money, because doing so will pre-empt the process that we have set with COSLA and have not yet gone through. However, I can tell the committee about the principles on which the decisions leading to the selection of bids from local authorities will be based.

The broad principles or criteria that will guide us in deciding which bids to accept are: first, that the council has the ability to manage new stock effectively; secondly, that the council either has prudential borrowing capacity or is able to bring other financial resources to bear; thirdly, that we have set a level of subsidy per house that would be available; fourthly, that the area has housing needs and any new homes contribute to a council's ability to meet the 2012 homelessness target; fifthly, that the council can demonstrate that its plans are well developed to ensure delivery of the proposed housing; and finally, that the number of units built can be maximised with the available resources, but not at the expense of compromising on design quality.

I also point out that, although the ministers will make and sign off these decisions, COSLA's shared services board will be fully involved in the process and will play a central role in guiding us on this matter.

The Convener: How many houses do you expect to get for the £25 million?

Nicola Sturgeon: You are going to stretch my ability at arithmetic, so Mike Foulis might have to help me.

We have agreed with COSLA a subsidy of £25,000 or less per house, so that means that there will probably be around 1,000 houses.

John Wilson: I want to follow up a couple of issues that have been raised with the cabinet secretary. Although I welcome the Government's moves to deal with the housing situation, I am a bit concerned about the £8 million for off-the-shelf purchases for registered social landlords. Some housing association spokespersons have expressed concern that the quality and design of such purchases might not be to the standard that associations usually insist on from developers and builders and that they usually deliver. I would hate to think that we would spend £8 million on off-the-shelf projects, only to find that their quality and design build were not up to the required standard.

Nicola Sturgeon: That is a reasonable question, but before I answer it, let me clarify that I did not say that all of the next £8 million would be spent on off-the-shelf purchases. Some of it is likely to be, but there will also be some land acquisition.

One reason—a subsidiary reason, not the main one—why we are keen to focus as much of the accelerated spending as possible on new build is to ensure that we are getting new houses that fully comply with the housing for variable needs standards.

At the start of October, we agreed a more flexible approach by relaxing the housing for variable needs requirements for certain circumstances in which RSLs are buying unsold houses from private developers. If the properties purchased do not meet the housing for variable needs standards but were approved under the 2007 building regulations, they will comply with the higher accessibility standards. If the construction of the houses predates 2007, the registered social landlord seeking to buy them will have to make a special case, which will then be part of the consideration of whether to approve that.

The short answer to John Wilson's question is that we are mindful of the need to ensure standards in the houses that are delivered, in whatever way, through the accelerated funding. When the housing is new build, the housing for variable needs standard will apply, as would normally be the case. When the purchase is off the shelf, the standards can be relaxed but the 2007 regulations will still apply. When those regulations do not apply, a special case will need to be made. It is matter of striking a balance between, on the one hand, our objective of making available as many houses as possible and doing what we can to help the construction industry and, on the other, ensuring the highest possible standards of the stock that we are acquiring.

John Wilson: We have heard from the Scottish Federation of Housing Associations and local housing associations throughout the country about the amount of money being made available in the coming period. Will you give the committee some assurances that the pleas by housing associations have been listened to and that the housing association movement, through the SFHA, will be adequately resourced to continue its on-going building and development programmes?

Nicola Sturgeon: I am a huge and passionate supporter of the housing association movement. Housing associations are the principal providers of affordable housing, and they will remain the principal providers of social housing. I suppose the easy and glib answer to your question would be to say yes—and I will indeed give you that assurance. Within that, however, I will repeat what I have said to the committee and Parliament on many occasions. We must drive efficiency in our housing budget as much as possible. That was why we took our decisions on the housing association grant assumptions this year, and it is why, over the next wee while, we will start to consult on the reform of HAG for the future.

If we are to meet our objectives on housing supply in the current difficult circumstances and within the available resources, we will have to work as efficiently as possible and secure as much as possible from the investment. We will work with the SFHA, the representative body of housing associations, as a partner, and I strongly welcome its contribution. We listen carefully to that, and I am certain that the consultation that we will publish in the next weeks will reflect that. As with any other organisation, I cannot promise that we will always agree with each other—that is not always possible. However, its contribution and enormous experience will always be taken into account in our decisions.

Bob Doris: You mentioned funding of £25 million for council houses, and my point is directly related to the HAG assumptions. You said that there would be a £25,000 subsidy per council house. HAG subsidy is considerably higher than that. I am trying to work out how councils can build council houses for £25,000 while housing associations are looking for £70,000 to £80,000 to build a social rented house. The difference stuck out like a sore thumb.

Nicola Sturgeon: Well spotted. I am sure that we covered that the last time that I gave evidence to the committee. The £25 million is intended to pump-prime, as I said earlier; it is not intended to provide the same level of subsidy as we do through HAG to RSLs. I ran through the principles and criteria that will underpin our decisions on which council bids to approve. One of those criteria is that the local authority has prudential borrowing capacity or other resources of its own to bring to bear. That will influence which councils are able to participate in the programme.

Bob Doris: I had been about to multiply by three the number of approvals that I thought we would get from the social rented sector, but you have clarified matters.

Nicola Sturgeon: If it turns out that way, I will be delighted, but I suspect that that is not the intention or the way in which it will work.

Mary Mulligan: I am pleased that the cabinet secretary recognises the contribution that housing associations have made. Although I am a new member of the committee, I acknowledge that you have spoken previously about changes to the HAG system. What are the benefits of doing that?

Nicola Sturgeon: There are many benefits. I should explain by way of background—sorry if I am repeating myself or telling people what they already know—that we are trying to ensure greater efficiency in our use of resources in two ways. In this financial year, we made several changes to the assumptions that underpin the allocation of HAG, which drove some efficiencies. All that we did was to bring our assumptions into line with the assumptions that housing associations already made about, for example, rent levels and their likely increases and the numbers of vacant properties. That aligned better our assumptions with theirs. In future we intend to look to reform HAG more substantially and to make its use more strategic. We will launch a consultation on that in the very near future in which I am sure the committee will take a keen interest. I will be happy to come back and talk about the detail of that when the consultation is published.

The benefits are, simply, to get more bang for our buck. We have a driving need to get more out of the money that we spend on housing. It will also allow housing associations to operate more strategically and gain efficiencies by, perhaps, coming together to develop housing rather than many housing associations developing on their own. There will be a range of benefits that will allow us to streamline and make more efficient how we spend our resources in future. Fundamentally—this is the driving objective—we want to get more out of that investment.

Mary Mulligan: So you see more private investment in such developments than there is at present.

Nicola Sturgeon: That is not necessarily the objective; it is about how we enable housing associations to make better use of their public money. For example, we have discussed the concept of one housing association being the lead developer for a number of housing associations rather than a larger number of housing associations developing on their own. The consultation will further develop our thinking on that. That is the thinking behind our plans for the future.

Mary Mulligan: I apologise, cabinet secretary; perhaps I did not put that question as I intended. In relation to Bob Doris's question, you gave a figure of £25,000 per house for local authorities. If you are reducing the amount of public subsidy per unit to housing associations, would that not mean that—

Nicola Sturgeon: Sorry, I follow you now. We have reduced the HAG subsidy in this year through the changes that I spoke about. Although it might be that the future changes that we make allow us to reduce the HAG subsidy further, that is not the only benefit—it is about doing housing investment more efficiently. We have been open about the fact that we see housing associations relying more on their reserves. The most recent estimate of the housing regulator is that there is something like £300 million in reserves across the RSL sector. We would like to see housing associations draw more on their reserves.

Before anyone jumps in and tells me this, let me confirm that we absolutely appreciate that, when we launched "Firm Foundations", we did not anticipate the change to the availability and cost of finance. All of those plans must now be developed in light of that reality. One of the up-front questions that we will ask in our consultation on the reform of HAG is the extent to which the change in the financial markets will have an impact on what we might have wanted to do previously.

11:00

Mary Mulligan: So that effect might cause a change in the plans.

Nicola Sturgeon: I am sure that you know that I will not answer that just now, before we have even launched the consultation let alone listened to the consultation responses. However, members can take it from what I have said—I probably should not say this, but I will say it anyway—that we will ask the sector to what extent it believes that the changed financial circumstances will have an impact on our plans. It is right and reasonable that we ask about that. If we ask that question, members can assume that we will be keen to listen to what the answers are.

The Convener: I am picking up on that heightening of expectation. I understand that the UK Government is preparing a package of financial measures to stimulate the economy, just as we are doing here in Scotland. Does the Scottish Government expect to have an increased budget for housing and regeneration as a result of that process?

Nicola Sturgeon: Obviously, the Scottish Government does not as yet have any detail about what the UK Government's plans are or what the value of those plans might be. I certainly hope that those plans are substantial, as there is no doubt that we need considerable reflationary activity. Over the past couple of weeks, we have heard signals from the UK Government that it agrees on that point, but the devil is in the detail and we await the detail. I certainly hope that, whatever spending flows from those plans, Scotland gets its fair share. If that happens, the Scottish Government will have decisions to take on how we allocate any additional funding. I hope that, from what I have said today and from the decisions that we have already taken, members can draw a sense of the priority that we give to housing and regeneration.

However, the convener has put his finger on a central point, which is that the Scottish Government's resources and powers are very limited. We will do as much as we can, but the UK Government holds the real levers, including the provision of increased liquidity to the markets, increasing the availability of mortgage finance, changing the cost of lending as well as Keynesian approaches to spending to reflate the economy. Those levers are held by the UK Government. I certainly hope that the UK Government will do more in the future than it has done to date to use those levers.

The Convener: It is completely understandable that you want Scotland to get its fair share. We all want that. The Scottish Federation of Housing Associations, which you have admired greatly, wants to see its fair share as well. The SFHA has made representations that housing should get its fair share of any money that might become available through consequentials. I am sure that the cabinet secretary will fight for that principle in the Cabinet.

Nicola Sturgeon: You can rest assured on that. I have read sections of the SFHA's evidence to the committee. It did not surprise me, as I think that the SFHA is absolutely right to make those points. Equally, I am sure that the committee will appreciate that I cannot sit here and spend money that is not yet available to the Scottish Government. We are getting into rather speculative territory at the moment.

The Convener: As the cabinet secretary with responsibility for housing and regeneration, will you be fighting for that fair share of the budget?

Nicola Sturgeon: You can rest assured that my voice will be heard loudly and clearly.

The Convener: We hope for a positive outcome and we will examine that outcome.

David McLetchie: Cabinet secretary, you may have read that the City of Edinburgh Council was talking about getting into the mortgage market and making loans available to home buyers. To what extent are councils in Scotland mortgage providers? Can you give us any information about that and about how the Government sees that aspect of support for the housing market?

Nicola Sturgeon: Local authorities are not, to use your term, mortgage providers to any significant extent. I am not trying to dodge the question, but it is not for me to speak for individual local authorities or local authorities collectively about how they might seek to develop their practices or policies in future. As I understand it, making such loans is not something that local authorities currently do to any significant extent.

David McLetchie: It is not a policy option that the Government considered appropriate to encourage as part of the package of measures that it announced in "Firm Foundations: The Future of Housing in Scotland" and its subsequent statements as the economic crisis has unfolded.

Nicola Sturgeon: As yet, we have not encouraged local authorities to use the money that is available in that specific way but, as I say, we will continue to keep all these matters under review. It is clear that, in addition, local authorities have a degree of autonomy in how they spend their own resources.

David McLetchie: As councils do not, by and large, have savers and depositors to provide the cash for such loans, I presume that local authorities that lend money for house purchase and act as mortgage providers can do so only if they, in turn, borrow the money either from a public source or on the wholesale money market. Is that presumption right?

Nicola Sturgeon: As you are aware, local authorities have prudential borrowing capacity and prudential borrowing limits within which they must work. It is not for me to dictate to local authorities how they spend their resources or how they use their borrowing capacity. I am happy to talk to you for as long as you want about the priorities that we have set for the resources that we have and how we think those resources can best be used to help home owners, home renters and the housing sector.

David McLetchie: In effect, the borrowing limits are set by the Government.

Nicola Sturgeon: They will depend on the circumstances of individual councils.

David McLetchie: So, if a council is borrowing for the purpose of making home loans, it is limiting its capacity to borrow for other investment purposes.

Nicola Sturgeon: Presumably, yes.

Alasdair Allan: I understand that an extra £10 million has been allocated to the central heating programme. How many extra central heating systems will that extra expenditure result in this year?

Nicola Sturgeon: We intend to install a record number of central heating systems this year, as we did in the last financial year, when we installed just over 14,000 systems. That was made possible by the addition of £7 million to what had been planned. The £10 million that I announced a couple of weeks ago will allow us to achieve the same number of installations as last year and, I hope, to exceed that number slightly.

Alasdair Allan: Do you anticipate a sustained level of investment for next year?

Nicola Sturgeon: You will recall that we established the fuel poverty forum to examine our fuel poverty programmes and recommend how we might reform them to allow us better to tackle fuel poverty. Whatever else the current fuel poverty programmes have done—I do not for a minute take away from the benefits that they have delivered to many people—they have not allowed us to bring down the rates of fuel poverty. Fuel poverty has increased substantially in Scotland. The most recent figures, which are pretty out of date, suggest that perhaps a quarter of households live in fuel poverty. Given recent trends in prices, for example, I think that the figure would be much higher now.

The fuel poverty forum's report and recommendations are available for any member to see. In a couple of weeks, I will make a statement to Parliament to announce our response to those recommendations. As I have said, regardless of how we structure the fuel poverty programmes in future, we intend to extend eligibility for the first time to families who are on income support and who have children who are under five or disabled children who are under 16. In addition to pensioners, those families will be eligible to apply to the fuel poverty programmes. I am afraid that you will have to await the announcement that I make in a couple of weeks to discover how the fuel poverty programmes will look.

Alasdair Allan: As I represent a constituency in which 47 per cent of households are in fuel poverty, I appreciate those sentiments. You mentioned the review of the central heating programme. In reaching the budget decisions, did the Government take into account some of the criticisms that have been made in the committee and elsewhere of the way in which the central heating programme was administered by Scottish Gas and some of the past shortcomings of the scheme?

Nicola Sturgeon: Absolutely. In the past couple of years, a range of issues has been raised about the fuel poverty programmes and how they operate. When we set up the fuel poverty forum to provide recommendations, it was very much our intention to put the programmes on a sustainable footing and to ensure that they work effectively and are better designed to tackle the issue of people living in fuel poverty. We will continue to spend the same amount of money—we are not reducing the budget in any way. We are committed to maintaining the budget for those programmes, but we want to ensure that the recipients of the investment are the people who are most likely to be living in fuel poverty. We have already done that in this financial year. At this stage, we have installed more central heating systems than had been installed at the same stage in the previous financial year. Further, because of the decisions that we have taken on prioritisation, the people who get the central heating systems are more likely to be in fuel poverty, which is very important.

The Convener: Recommendation 16 of the fuel poverty forum report states:

> "At the next spending round there needs to be a significant increase in the level of Government investment devoted to tackling fuel poverty."

What flexibility will you have to ensure that that happens?

Nicola Sturgeon: As I said, we operate within a fixed budget, so any decisions that we take to increase one budget must impact on another budget. You quote from the fuel poverty forum report. Most people would agree that, given the rates of fuel poverty, we need to do everything in our power to maximise the resources that we bring to bear to tackle that problem. It is interesting that we are maintaining spend on fuel poverty programmes while Governments in the rest of the UK have allowed those budgets to decline. That is an indication of our commitment.

We must ensure that the resources from the energy companies that should be brought to bear in Scotland are spent here. It is a widely held view that Scotland has not had its fair share of those resources in previous years. That is why we set up the CERT—carbon emissions reduction target—strategy group, which has already reached an agreement with the energy companies that they will work with us to ensure that Scotland gets its fair share of the resources that are available through the CERT scheme. We will work in many ways to ensure that we spend as much as possible on fuel poverty from within our limited resources. The fact that, in the past couple of weeks, we have added £10 million to the amount that we planned to spend by reallocating resources from other parts of my budget is an indication that we take fuel poverty extremely seriously.

The Convener: A test for any Government when it sets its budget is the priorities that it sets. I agree that tackling fuel poverty is a high priority. Is it a higher priority than a cut in business rates, reducing class sizes or the provision of free school meals? That is a difficult one.

Nicola Sturgeon: I am not aware that any party lodged an amendment to the budget last year to change the spend on fuel poverty. It is open to any member of the Parliament to do so.

The Convener: The committee might consider that.

Nicola Sturgeon: We have given a commitment to tackle fuel poverty, and we can demonstrate that it is an extremely high priority within our overall spending plans. The money that we planned to spend in this financial year was maintained from previous years. As I said, Governments elsewhere in the UK have cut those budgets. In the course of the financial year, we have supplemented the money that we planned to spend, because we consider tackling fuel poverty to be one of our most important priorities, given how many people struggle with it. Three factors impact on fuel poverty: the price of energy; income; and the energy efficiency of homes. The Scottish Government can really influence only one of those drivers—energy efficiency—and that is what our spend through the fuel poverty programmes is designed to do.

The other two factors—energy prices and incomes—are driven by the UK Government. One of the big disappointments of the fuel poverty package that the Prime Minister announced some weeks ago was that it had virtually no extra Government spending attached to it; all the additional resources were to come from the energy companies. I welcome those resources, but the fact that not one penny of Barnett consequentials came from that proves that no additional Government money was put in.

On the other hand, this Government has put its money where its mouth is with the additional £10 million for the fuel poverty programmes in this financial year.

11:15

The Convener: We have enough trouble holding our Government to account, never mind the UK Government. The purpose of this evidence session is to scrutinise our budget. I am sure that you would agree that Governments can set an example. When they do so, it makes it easier to negotiate with people who have influence over other things.

Mary Mulligan: We received a helpful briefing from Shelter Scotland. It made the point that, given the change in the funding situation for local authorities in relation to supporting people and homelessness moneys, it was difficult to see how those moneys had been spent. There was a suggestion that the information provided was not accurate because people had misunderstood the questions. Are you aware of that? Will you be able to resolve the situation?

Nicola Sturgeon: I am aware that the figures for supporting people in the draft budget do not reflect the actual spend completely and accurately—in fact, they underestimate it significantly—which reflects how local authorities are reporting spend. It is clear that there are issues around that.

"Revolutionised" might be too strong a word for this, but we have significantly and substantially changed the relationship—and the financial relationship in particular—between central Government and local government. It would therefore be wrong not to expect to see that change reflected in our budget information. Through the single outcome agreement framework, which is in its infancy, we will develop the structures for people to see how local authorities are using the money to meet the objectives in the single outcome agreements, which will be very important.

Mary Mulligan: So you accept that there were some inaccuracies in the reporting and you are saying that that will be put right. As the convener said, we are here to look at the budget before us and we cannot do that properly if we cannot compare like with like.

Nicola Sturgeon: Sure. I have said openly that the figure in the draft budget for supporting people underestimates the spend of local authorities. I suppose that it is better to be in that position than to be in the reverse position, whereby the budget overestimated the spend. I hope that the information that the committee now has provides a reassurance about the priority that local authorities are attaching to what is a very important area of spend.

Mary Mulligan: Is that underreporting of spending not a result of an overreporting of spending on homelessness?

Nicola Sturgeon: Can you expand on that point?

Mary Mulligan: Shelter is suggesting that the figures have been reported the wrong way round and that therefore there would be less spend on homelessness.

Nicola Sturgeon: I do not think that any local authority could reasonably be accused of not prioritising homelessness. One of the strong motivators and drivers that we have—I will be consensual and give credit to the previous Administration for this—is the target to eradicate homelessness by 2012, which puts a great onus and obligation on all local authorities to ensure that they are doing the work that is necessary to meet that target. The most recent homelessness statistics that were published show that, although there are some concerning trends, those trends come from more encouraging trends. With local authorities getting rid of the divide between priority and non-priority homeless people, as the demand rises, we are seeing more people in temporary accommodation, which we have to tackle. What underlies that is that local authorities are making progress in meeting the 2012 target, which is a very challenging target. I think that no one underestimates the difficulties in meeting it, particularly in the current climate. However, central Government and local government are committed to it. Obviously, that puts a strong obligation on authorities to ensure that they are spending resources adequately to meet it.

The Convener: On the point that arose at the start of the meeting when we were comparing amounts in the spending review and the draft budget, I propose that we write to you for clarification on whether you agree with the figures that our budget adviser has provided.

Nicola Sturgeon: I am more than happy to provide any further information. Most but not all of the changes in the figures in the spending review and the draft budget will come down to the £100 million acceleration. There is also the money that has gone into the local government settlement. We can provide detail line by line on that.

The Convener: That would be fine. We are working to produce a draft report next week. It would be helpful therefore to have the information as soon as possible.

I thank you and your team for your attendance at the committee and for your evidence.

11:21

Meeting suspended.

11:22

On resuming—

Subordinate Legislation

Energy Performance of Buildings (Scotland) Regulations 2008 (SSI 2008/309)

The Convener: Item 2 is subordinate legislation. We have one negative instrument to consider. When we considered the regulations at last week's meeting, we agreed that we would invite Scottish Government officials to the committee to assist us in our consideration. I welcome Gavin Peart, assistant head of building standards, and Linda Hamilton, principal legal officer. We will go straight to questions.

Jim Tolson: Good morning. I thank Mr Peart in particular for his letter of 31 October to the clerk, which the committee has had the opportunity to consider and which contained some useful points. I turn first to energy performance certificates. You said:

> "The most significant change in practice for Social Landlords is that EPCs are required to be made available when a property is to be rented out to a new tenant."

If landlords have to ensure that an EPC is in place before a transfer goes through, will the transfer process be slowed down?

Gavin Peart (Scottish Government Directorate for the Built Environment): We do not anticipate that. Probably the majority of registered social landlords will end up energy rating their entire property stock. They will hold all those certificates and update them on a regular basis. We do not envisage any hold-up.

Jim Tolson: I appreciate that that could be the case once everything has been done and all properties have been surveyed, which is a mammoth task. However, in the early days, when transfers are continuing all the time on a day-to-day basis, surely some transfers will be held up.

Gavin Peart: Again, we cannot say how registered social landlords will carry out their business. However, when a tenant moves out of a property, the RSL must visit it to ensure that it is in good condition, and somebody with a professional qualification would probably do the energy rating of the building then, so all the work could be done at the same time.

Jim Tolson: I certainly hope that you are right. In your letter you mention that a higher level of professional qualification may be required in some areas to carry out the energy rating. Not only will the work be an additional burden, therefore, but officers who have until now been checking that houses are in good condition and electrically sound and that the central heating works will need a higher skill set or someone with such a skill set to come with them in order to get the work done. I suggest that that would slow down the transfer process.

Your letter also touched on the carbon emissions reduction target. Looking at the private sector, you said:

> "Free advice is available to homeowners wishing to take forward the EPC recommendations, from the Energy Saving Scotland advice network."

Again, that would seem to be quite an additional burden. What cost predictions have been built in for that service to ensure that it can be financed?

Gavin Peart: That is not part of my policy area, but we can find out that information for the committee, if it wishes.

Jim Tolson: We may want to put that point to the Cabinet Secretary for Finance and Sustainable Growth later, convener. I certainly want to get some answers on the cost implications of that proposal for the budgets.

Gavin Peart: We can certainly take a note of that point and get information to the committee on it.

Mary Mulligan: Good morning to both witnesses. My question follows on from Jim Tolson's one. There is an obligation to provide energy performance certificates. Have you estimated how much that will cost local authorities? I recognise that it will be a big job at first, but it will reduce later.

Gavin Peart: The regulatory impact assessment allowed £100 per energy performance certificate for the social rented sector.

Mary Mulligan: Is that per unit?

Gavin Peart: Yes, but the information coming through is that the cost is likely to fall and that it could go down to £70. Local authorities already energy rate properties for the Scottish housing quality standard. Again, therefore, there will not really be an additional burden.

Mary Mulligan: Local authorities would have had to do the work anyway, so the money involved should be a recognised cost for them.

Gavin Peart: Yes.

Mary Mulligan: How does the cost for local authorities and RSLs compare with that for the private sector?

Gavin Peart: We thought that the cost of an EPC for the private sector would probably be nearer £150. We considered that social landlords would probably be able to take a cheaper-by-the-dozen approach in many instances and get discounts. However, that might not work out for private sector landlords who do not have many properties. Again, though, we reckon that costs will fall. We think that that is evident from what has happened in England.

Mary Mulligan: What training is available for people to take forward the work?

Gavin Peart: Ten approved organisations have signed up, and they are all actively taking training forward.

David McLetchie: You said that the estimated cost for a private landlord to obtain an energy performance certificate would be £150. That would be the fee, but VAT would be added, so the cost would be £150 plus.

Gavin Peart: We thought that the £150 would include the VAT.

David McLetchie: It would be an inclusive cost. That is fine.

When a property is to be sold, how do the regulations tie in with the legislation on home reports?

Gavin Peart: The energy performance certificate legislation is different from the home report legislation. However, there is a connection: the software that produces the energy report for the home report is the same software that produces the energy performance certificate. The upshot is that, if you produce an energy report, you get an energy performance certificate as a by-product, and if you produce an energy performance certificate, you get an energy report as a by-product. Therefore, there is really no additional cost.

11:30

David McLetchie: We have heard that a home report package will have an inclusive cost of between £500 and £800 for the seller. I believe that that is the latest range of figures. You are saying that the energy performance certificate will not in any way add to the cost for any given property.

Gavin Peart: A certain amount will already be subsumed within the cost, but the certificate will not add any extra cost. As I say, if a surveyor produces an energy report, they will get an EPC free, and if they produce an EPC, they will get an energy report free. An extra cost will not be added, as everything comes out of the same process.

David McLetchie: So will the surveyors who do valuation reports and building condition reports also be regarded as "approved organisations"—to use the term in the regulations. Will those surveyors be capable of producing your energy performance certificates and be authorised to do so?

Gavin Peart: My understanding is that the Royal Institution of Chartered Surveyors is working towards that, to ensure that the energy report and the EPC are produced at the same time as the home report.

David McLetchie: So it is all part of the package.

Gavin Peart: Yes.

David McLetchie: Thank you.

The Convener: There appear to be no further questions. Do committee members agree that they do not wish to make any recommendation to the Parliament on the regulations?

Members *indicated agreement*.

The Convener: I thank our witnesses for coming today.

11:32

Meeting suspended.

12:00

On resuming—

Budget Process 2009-10

The Convener: We move to agenda item 3. On behalf of the committee, I welcome the Cabinet Secretary for Finance and Sustainable Growth, John Swinney. He is accompanied by Roddy Macdonald, the head of the Scottish Government's local income tax team, and Graham Owenson, the head of the local government finance team. I believe that the cabinet secretary wants to make an opening statement. After that, we will move straight to questions if that is okay.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Thank you, convener. I welcome the opportunity to discuss the Government's draft budget for 2009-10 with the committee and to focus on the issues in which the committee has an interest.

The approach to setting out the financial provision for local government in the Government's budget is very much constructed within the framework of the concordat, which was an implicit part of the spending review last year. The Government continues to pursue a constructive relationship with local authorities in Scotland, in which we work together to achieve shared outcomes for improvements in the quality of life of the people of Scotland. That relationship is captured in the details of the budget document and underpins the financial commitments that are made.

The draft budget that is before the committee today confirms a number of provisions that were made in the budget process for 2008-09 and continues commitments that were made during that process. The first of those relates to the recruitment of police officers and the funding that is available to support that. The second relates to the acceleration from the Government's original plans of the roll-out around Scotland of the small business bonus scheme. Those commitments, which were made in the course of the budget process for 2008-09, will be continued for a further period during the forthcoming financial year.

In addition to those points, the key changes in the budget that affect local government relate to the inclusion in the budget of confirmation of our earlier commitment to provide an additional £40 million to local authorities in 2009-10 for the implementation of free personal care. That commitment arose from the review that was carried out by Lord Sutherland. A second issue relates to the change to the capital budgets of local authorities to ensure that the Government is able to deploy more resources to support the development of affordable housing investment in Scotland. That relates to £20 million in this year and £20 million in 2009-10, and the full £40 million resulting from those two changes will be returned to local government in 2010-11.

The budget document captures those changes and the degree of total spend that is undertaken by local authorities. We have included, in table 9.04, a summary of local authority budget estimates to provide further information on the way in which local authorities spend the resources that are allocated to them and which they raise for the purposes of their own spending plans. Table 9.04 is designed to assist in the greater understanding of how local authority funding is deployed.

We will proceed through the work that we undertake with local authorities in the framework of the single outcome agreements that have been agreed with all 32 local authorities in Scotland.

I would be delighted to answer the committee's questions.

The Convener: Thank you for those comments, cabinet secretary.

The impact of the current economic situation has hit everyone. We heard evidence last week about the increased pressures that local government has faced since the budgets were set. We understand that you may have met local authorities this morning—we were told that you were going to meet them this week—to discuss those increased pressures. We are interested to know whether any concessions were made to address the inflationary pressures that they claim to be experiencing by way of providing additional funding.

John Swinney: Local government in Scotland is probably extremely well placed to understand the financial framework within which the Government operates. As members of the committee are aware, we operate on a fixed budget. We have a fixed spending review for three years that contains resources that the United Kingdom Government allocates to us and accounts for the overwhelming majority of the resources that we have to deploy. If there were to be any changes within the Government's budget, they would involve taking resources from one policy area to allocate them to another to support the tackling of any spending pressures or other commitments that exist.

This morning, the Cabinet Secretary for Education and Lifelong Learning and I met the president and vice-presidents of COSLA and their officials, as we do bimonthly. We discussed the various funding pressures that local government faces and will continue those discussions in the weeks to come.

The Convener: COSLA gave me—perhaps not the whole committee—the impression that, if a threshold is passed or a situation gets particularly difficult, local authorities have the right under the concordat to discuss the additional pressures in the expectation that something could be done to address them. I presume that they would not have signed up to anything less.

John Swinney: Any reading of the concordat would confirm your understanding that local government has the facility to raise concerns about financial issues with the Government, as in any normal co-operative, collaborative relationship. At all the bimonthly meetings that we have held with local government in Scotland, we have considered a variety of issues that our local authority partners raise and we will continue to do so.

Whether the Government is able to meet all the funding demands that are made of it must be considered in the context of the remark that I made to your first question that it operates within a fixed budget and, unless there is a change to that arrangement, we must live within the confines that we have established. Notwithstanding that point, and referring back to what I said to the committee a moment ago about our having allocated increased resources to local government to deal with the strains of free personal care as we promised we would do, we will continue to have co-operative discussions with local government in Scotland.

The Convener: What is the difference between inflation when you laid out your plans in the spending review and inflation now? Do you accept that there is serious pressure on local government to deliver within the funding that is available to it?

John Swinney: In point of fact, the assumed gross domestic product deflator in the spending review is 2.7 per cent. That runs for the whole three years of the spending review. The most recent inflation figure is just above 5 per cent, but I do not for a moment believe that that will be the figure in 12 or even nine months' time—I do not think that it will be anything like that. I accept that the GDP deflator is an estimate. Today, the rate of inflation is higher than that estimate, but I am pretty certain that, during the course of the spending review, it will be below it.

The Convener: However, you have no plans to compensate for that difference at the moment.

John Swinney: The great advantage for local authorities is that they are essentially able to manage their resources within the context of the position on actual inflation versus the GDP deflator. If inflation were to reach 1 per cent at some stage during the spending review, I would not be knocking on the door of Scottish local authorities to claw back resources that I have allocated to them. Local authorities are able to manage their resources within the spirit of the concordat. The Government has given greater freedom to local authorities to manage their resources. Some of the hindrances of the old regime have been removed, which maximises local authorities' flexibility.

The Convener: Was the tough message that you gave to COSLA this morning: "There's sympathy but there's nothing we can do. It's within your own resources"?

John Swinney: My political style is that I do not generally dish out tough messages. I am characterised as a reasonable individual in all my political undertakings, and I hope to be able to deploy that reasonableness with the Local Government and Communities Committee this afternoon.

In our discussions with local government, we talk about all issues relevant to the concordat. Those discussions are supposed to be at least bimonthly, although they happen to be much more frequent than that. We will continue to have those discussions. Today, the president of COSLA and his colleagues made clear to me the financial pressures that local government is under. I have committed myself to continue to discuss those funding pressures with the COSLA leadership. I am delighted to do so.

The Convener: Would you compromise your relationship with local authorities and the Government if you revealed to the committee further detail about the discussions that took place with COSLA this morning and at previous meetings? Is the scrutiny process compromising your agreement with COSLA?

John Swinney: I would not say that it compromises the process. I am discussing with COSLA issues on which we are working to secure agreement. Ministers are entitled to have some space in which to discuss those issues and we will exercise judgment on when it is appropriate for information to be shared with Parliament, in the spirit of openness for which we are always characterised.

The Convener: Do you not think that the concordat is harming that openness?

John Swinney: Not in the slightest.

The Convener: I speak not just on my behalf—other conveners have expressed this—when I say that it is increasingly frustrating trying to get evidence from COSLA and the Scottish Government about their relationship. The committee is interested, as are the public, in charges that may be being levied and the effect on the delivery of services resulting from that relationship. Whether or not we get COSLA representatives here, we are finding it increasingly difficult to get them to go on the record on that. I hope that it will not continue, but your reluctance until now to discuss any of the detail of the serious nature of this morning's meeting perturbs me a little.

John Swinney: Unless I was in a different room for the past 13 minutes, I am not conscious of not having answered any of the committee's questions. I remain happy to answer all your questions. It is important that we take forward our discussions with local authorities and, for that matter, other partners in the business of government in a fashion that allows us space to discuss issues of mutual and relevant interest. A moment ago, I said that—at all times—the Government would come to Parliament with information when it was appropriate to do so.

As we go through the budget process, committees are taking evidence. Each committee will produce a report, and those reports will be considered and amalgamated by the Finance Committee. That report will be discussed in Parliament just before Christmas, and I will be there to speak on the Government's behalf. A budget bill will be published in January and will be the subject of a stage 1 debate in Parliament. There will be a stage 2 hearing in the Finance Committee, and a stage 3 debate in Parliament. On all those occasions, I will be there to answer for the Government. There are a significant number of opportunities to probe the Government on those questions.

12:15

Jim Tolson: I want to ask about the Government's policy on free school meals, particularly with reference to the evidence that we took and the questions that we considered with COSLA last week. We got assurances from the senior members of COSLA who were present that the 32 local authorities will be able to put forward the Government's proposals and provide free school meals for primaries 1 to 3 by 2010. However, as I am sure you are well aware, a number of local authorities feel that, in the current economic climate—and for other reasons—they do not have the budget to provide the free school meal service that the Government wishes to be implemented. In many ways the service is aspirational, but what sanctions does the Government plan to impose on any local authorities that cannot meet the commitment?

John Swinney: We discussed the issue of sanctions during our consideration of the budget last year. I made it clear that the Government was more interested in pursuing a relationship with local authorities that was focused on the achievement of joint outcomes, to which we could both sign up, and that we wished to work co-operatively to deliver that. The talk about sanctions for not delivering rather presupposes that there will be an inability to deliver that service.

The question of free school meals will not become relevant until during the financial year 2010-11. I am sure that local authorities will consider the various points that have been made by the president of COSLA and others about the fact that the commitment to roll out the concept of free school meals in August 2010 was fully funded within the financial arrangements that we have put in place.

Jim Tolson: I appreciate that you have reiterated that point—it is an aspiration of the Government for the service to proceed. However, you avoided answering the question about what plans the Government has by way of sanctions on councils if that cannot happen in certain local authority areas.

John Swinney: As I said, it is not a particularly constructive contribution to a relationship in which we are focusing on shared outcomes to discuss the application of sanctions. We are trying to create a very different relationship with local authorities, which will be a complete contrast to the futile and pointless relationship that existed between local authorities and the previous Administration. We heard very little, previously, about there being a constructive relationship; we heard everything about conflict between Government and local authorities. This Scottish Government is trying to create a fundamentally different relationship, and I think that we are succeeding in doing that.

Jim Tolson: I understand that point absolutely, but are you saying that there would be no sanctions should some local authorities—for good reasons—be unable to fulfil your commitment?

John Swinney: I return to the point that I have just made. I want to have a co-operative and effective relationship between national Government and local government in Scotland. I think that we have created that and that, by focusing on what the concordat contains and concentrating on delivering the concordat's commitments and the shared outcomes of national Government and local government, we can proceed in a particularly productive way.

Bob Doris: We took evidence from COSLA last week in relation to existing planned expenditure by local authorities in the context of additional pressures. My recollection of the evidence is that COSLA was pretty clear about free school meals being a pre-planned, existing commitment, which was funded, and that additional pressures included inflation—meaning higher food and fuel prices—revenue that has been lost to local authorities through a lack of planning development, and so on. Is that your understanding? Is the provision of free school meals a pre-planned, existing, funded commitment, rather than an additional pressure on authorities?

John Swinney: The spending review package certainly includes funding for the roll-out of free school meals in August 2010; indeed, it was part of the proposition that was set out to Parliament last November and forms part of the concordat that we have agreed with local authorities. I believe that COSLA representatives confirmed that clearly to the committee at last week's meeting.

Bob Doris: They certainly did, and I am glad that you have been able to confirm those comments.

In my follow-up question to COSLA, I asked whether it expected local authorities to show good financial management when setting their year 1 budgets, never mind their year 2 budgets, and in fact to have an eye on their year 3 budgets and to pencil in a sum for free school meal delivery now. That would ensure that, when local authorities reach year 3, they cannot simply turn round and say, "We have no money left for that." Should local authorities plan now for that spend in year 3?

John Swinney: That is my understanding of the approach to financial planning that has been recommended for—and is, I believe, pursued by—local authorities. A number of authorities have made very clear commitments on the shape of their financial planning over the spending review period. For example, some have put on record their intention to freeze the council tax for this parliamentary session on the assumption that the Government will continue to provide the support that it provided in 2008-09 to freeze the council tax. That sensible long-term financial planning would be the norm for Scottish local authorities, and the suggestion that Mr Doris has made fits very comfortably into that approach.

Bob Doris: What advice would you give a local authority that had not set in its year 2 budget a budget line for delivering free school meals in year 3?

John Swinney: It is not my business to manage the budgets of individual local authorities. Indeed, it is desirable for me not to do so. Such an approach would undermine the concept implicit in the concordat of individual authorities using the maximum flexibility at their disposal to manage their own affairs. A key element of the concordat was the Government's view that local authorities should be given greater responsibility, have greater flexibility and be empowered to take their own decisions. From the discussions that I have had with local authority leaders in my travels around the country, I believe that they are all enjoying that type of operational environment.

Bob Doris: You might not be in a position to comment on that matter, cabinet secretary, but I certainly am. I warn any local authority that frustrates the delivery of free school meals to Scotland's children for party political gain—or, for some, because of poor financial management—that it will pay a heavy price.

The Convener: That was not a question.

John Swinney: As I commented earlier on an opinion expressed by the convener, I should, in the interests of fairness and decency and just to be even-handed, also comment on Mr Doris's opinion.

Mr Doris has his own opinion, but I feel that my role—and, indeed, the Parliament's role—does not include dictating to local authorities on intricate financial management issues. The Government not only issues guidance through the "Scottish Public Finance Manual" but supports guidance on financial management for local authorities that is issued by organisations such as the Chartered Institute of Public Finance and Accountancy. All that guidance is available to local authorities—which are, I should add, democratically elected institutions—to use in the spirit of the flexibility that is provided by the Government.

Bob Doris: I would also urge local authorities to follow the advice—

The Convener: Come on, Bob. Your previous warning already has council leaders shaking in their boots.

Mary Mulligan: I do not think so.

Cabinet secretary, you have said that local authorities face a number of unexpected pressures. Do you think that this is the right time for local authorities to continue their policy of freezing the council tax?

John Swinney: I do. I accept that there are pressures on public finances. I am wrestling with those pressures across the public sector in Scotland, as part of my wider responsibilities as the Cabinet Secretary for Finance and Sustainable Growth. Equally, there are pressures on household and business finances. That is why I am pleased that in the 2008-09 budget, which was enacted with Parliament's support, we were able to freeze the council tax and to reduce business rates for smaller companies. I hope that in this budget process we can secure, with Parliament's support, a continuation and completion of the proposal to reduce business rates for some companies, to remove them for others and to freeze the council tax. We must have an eye on the financial pressures that households will experience as a result of wider economic circumstances.

Mary Mulligan: The figure that has been quoted to enable a council tax freeze to happen is £70 million. Do you consider that sufficient?

John Swinney: I do. If last year I had applied the GDP deflator to the level of council tax income that was generated to compensate for the rise in council tax that did not take place, I should have made available £58 million. I did not—I made available £70 million, so there was a gain for local government. I am not sure what the level of inflation will be in February 2009, when most councils set their council tax levels, but I made the point to the convener that we must make an assumption about the GDP deflator throughout the three-year spending review period. That assumption is arrived at not by me, but by the Chancellor of the Exchequer—I have no power to change the GDP deflator. I have made the assumption that there are adequate resources to allow the council tax to be frozen. As part of the budget, I will make available, subject to Parliament's consent, a further £70 million to freeze the council tax. The £70 million that was available last year is baselined to take account of the fact that authorities have absorbed it into their forward planning.

Mary Mulligan: One of the pressures on local authorities is pay. Over the past 12 months, there has been industrial action. Would it not be sensible for you to address the issue of pay as a priority, instead of financing a council tax freeze?

John Swinney: The overwhelming majority of the individuals who are involved in the industrial action to which you refer are council tax payers, so there will be a reduction in their household outgoings as a consequence of the council tax freeze. That will help individuals. I am aware that there are difficulties relating to public sector pay—I wrestle with those issues in relation to Government staff. However, we are taking the right action to take account of the difficulties in the economy and the pressure to which households are subject as a result of those circumstances.

David McLetchie: I was interested in your conversation with Mr Doris about meals. You distinguished between measures that are in the budget and catered for in the spending review, and measures that are genuine extras. The thrust of the conversation was that free school meals are planned for and are therefore included in projected budget allocations. Are the costs of implementing single status and equal pay also included in the budget, or are they extra?

12:30

John Swinney: For a considerable time, local authorities have had an obligation to resolve the equal pay and single status issues. That is not a new commitment—it has not just arrived in the current spending review or come out of the Government's programming, but is something that local authorities should plan for. I gave evidence at length on the subject to the Equal Opportunities Committee some weeks ago: I said that it was clear to me that local authorities were not saying to the Government that there was a new pressure on them arising from single status and equal pay issues. The issues have been with them for a considerable time.

The chief executive of COSLA wrote to the Equal Opportunities Committee on 3 October. In the context of the discussion about equal pay and single status, he wrote:

> "While challenging, councils have met these costs from their own resources including drawing on reserves. Although a major budgetary pressure Scottish councils have chosen not to seek further funding from the Scottish Government."

That demonstrates that local authorities are working to address the issues. If my memory serves me right, the last time I looked at the information, on 3 October 24 councils had implemented single status pay agreements and another couple were scheduled to do so shortly thereafter. I am afraid that I cannot offer the committee an update on whether that has happened. Six councils were working towards a settlement with their respective workforces.

I would, therefore, characterise the issue as being a long-standing one that authorities should have planned for in their prudential financial planning. Councils hold reserves that are designed to cover such consequences. The auditors would have had an eye on the degree to which the reserves were sufficient to cover the costs—that would be a matter for the independent regulation by authorities of their auditing practices.

David McLetchie: The figure of 24 councils, with two others pending, was updated last week by COSLA in its evidence. It said that 26 councils have now implemented single status pay agreements. However, it came out in the subsequent discussion that, although those 26 councils had settled single status agreements, not all of them had resolved all the related equal pay claims and other issues. That is a significant and potentially costly difference.

It also came out in the same evidence that there had been a recent decision involving employees of the City of Edinburgh Council that was felt to have considerable cost implications in terms of equal pay, retrospective claims and so on, with consequential impacts on other local authorities. Therefore, it seems that the costs of equal pay are still unquantified and could be considerable. Is that a fair assessment?

John Swinney: There will, inevitably, still be costs to resolve because six councils are still working towards a settlement. I understand that the City of Edinburgh Council is one of them.

David McLetchie: No—those six councils are still working on single status agreements. I am talking about both single status agreements and all the equal pay claims. There is a difference.

John Swinney: The equal pay claims will be dependent on the extent to which individuals decide to pursue particular grievances about the arrangements that have been put in place. To be fair to local government, that is a pretty difficult factor to quantify because it is individuals who will have to advance the claims. I accept that further costs are likely to arise, but I return to my point that individual local authorities are required to hold—and do hold—reserves to cover some of these pressures. They are obliged to do that as part of their responsible approach to financial management.

David McLetchie: You said "some of these pressures". I am trying to get to the bottom of whether the Government regards all or part of the cost of settling equal pay claims as an extra that is outwith the financial settlement in the concordat or whether your position is that all local authorities should have budgeted for that cost. Were grants awarded on the assumption that the matter is all squared off? To what extent is the cost established and to what extent is it an extra? That is what we are trying to get at.

John Swinney: To address the specific point, there is nothing in the concordat about equal pay and single status as an obligation because there was no new obligation to be created. I suppose we could have required all authorities to resolve equal pay and single status claims by a certain date, but we did not. I cannot tell local authorities that they have a duty to do that by a certain date if they have not agreed to that. There is an existing responsibility and obligation on local authorities to resolve equal pay and single status claims that predates the concordat and goes back some years—to 1999, I think.

I agree with the final part of Mr McLetchie's question: all local authorities should have made provision because that was the responsible thing to do. I think they have done that.

David McLetchie: Just to finish this line of questioning, the crucial thing is that, if equal pay claims go adversely for local authorities, they have no alternative but to stump up because they will have incurred a legal liability in the form of a judgment. It must surely have an impact on areas of discretionary spend if more is taken out of their budgets than they anticipated.

John Swinney: That is a fair analysis. If the equal pay issue does not take the course that authorities assumed, it is possible that they will face greater financial liability. I cannot disagree with that analysis.

David McLetchie: Is it not slightly worrying that despite all the previous attempts to get local authorities to get a financial handle on the matter, including when you were a member of the Finance Committee and in the Opposition, we have failed to get any concrete information on the likely costs?

John Swinney: I perhaps now have the benefit of speaking as a minister with a rounded understanding of the issue rather than as an Opposition member. The difficulty is that it is impossible to quantify the issue other than by a set of assumptions. For example, we could say that it will go 5, 10 or 20 per cent wrong, and a number will flow from that, but those are assumptions and estimates.

As things stand, it is welcome that 26 local authorities have made the progress that they have made and I look forward to the other six authorities completing their work on single status and equal pay. Local authorities have provision to support those commitments. I accept that there will be a greater financial liability if judgments do not go as planned, but that liability is not obvious at present.

David McLetchie: Do you know which authorities made a 5 per cent assumption, which made a 10 per cent assumption and which made a 20 per cent assumption?

John Swinney: I do not. It is not my business to know that information.

David McLetchie: Is it not? Did they not sign up to your concordat on the basis that they thought that their 5 per cent assumption was inadequate? Will they not come back to the Government for more money if their assumption turns out to be wrong?

John Swinney: No—I said that the concordat had no new provision on equal pay and single status.

David McLetchie: Exactly. In other words, local authorities signed up on the assumption that their assumption was correct. If their assumption proves to be wrong, it is logical that the basis on which they signed up to the concordat must therefore be false.

John Swinney: That completely misses the point and ignores the fact that local authorities are obliged to be responsible self-governing financial institutions. They must make provision for their existing commitments.

David McLetchie: That is very good in theory, but without going into their histories, we have seen with certain councils in Scotland that responsible self-government—

The Convener: Cabinet secretary, we are going to move on to John Wilson. That has been a good exchange from which people can draw their own conclusions.

John Swinney: I would like to respond to Mr McLetchie.

The Convener: I cannot win. Go on.

John Swinney: In the interests of even-handedness, I do not want to think that Mr McLetchie will not be favoured with one of my responses to his opinion; it is always a pleasure to do that. Mr McLetchie commented that numerous local authorities have a poor record on such questions.

David McLetchie: I said "several", not "numerous".

John Swinney: I apologise if I misquoted or exaggerated Mr McLetchie's comment. We have to keep perspective in this matter. In recent years, in only a very small number of authorities—three in total—have what I consider to be serious questions been raised about financial management since the reorganisation of local government in 1995. It is important that we recognise that the picture that I present of financial responsibility is perhaps evidenced by the fact that such situations are very much the exception and not the rule.

John Wilson: Good afternoon, cabinet secretary. I will follow on from David McLetchie's question. I think that he was trying to get to the point that, although we have agreed that single status has almost been settled with 26 authorities, the consequentials of equal pay are outstanding, as we keep being told by COSLA. It was COSLA that raised the issue about equal pay and single status and said that complications were introduced by the single status agreement. Perhaps you will confirm or deny what we heard earlier this morning—that an estimated £300 million is held in reserve by local authorities in Scotland. Is the cabinet secretary satisfied that those reserves will cover liabilities under the equal pay settlement? If they do not, who will be liable to make up the difference between local authorities' reserves and awards under equal pay?

Mary Mulligan: May I comment? I think John Wilson is mixing figures. The figure that Nicola Sturgeon used this morning related to housing associations' reserves, not those of local authorities.

John Wilson: Sorry. I am trying to understand what reserves are held and what has been calculated in relation to the possible commitments that might arise either through the single status or equal pay settlements that must be achieved. Although I understand that the single status and equal pay arrangements should have been based on the agreement in 1999, the issue now arises that we are in 2008 going into 2009. If the cost of the equal pay settlement is greater than local authorities have budgeted for, who will pick up the tab?

12:45

John Swinney: I will try to help John Wilson with some information. The estimated total reserves of local authorities in Scotland, as at the end of financial year 2007-08, was £1.7 billion. That is a significant amount, which is spread across a number of different reserves: general fund reserves, housing reserves, capital funds and insurance funds. Local authorities are anchored by a significant holding of reserves, which relates to my point about financial responsibility.

Many of those funds are attached to commitments, or are required as anchoring funds for specific purposes, but that is the overall scale of Scotland's current local authority reserves. CIPFA makes recommendations on the level of reserves that local authorities should hold: if my memory serves me correctly, it is 2 to 3 per cent of the total budget—-or revenue, I cannot remember which—of each local authority. I cannot give the committee an authority-by-authority account of that, but I know that local authorities operate on that assumption.

My assessment, which is evidenced by the point that COSLA's chief executive made in the letter of 3 October to the Equal Opportunities Committee—which I have already cited—is that councils are looking to their own reserves to accommodate some of those purposes.

John Wilson: How have local authorities reported their levels of the efficiency savings that are expected of them? Does the 2 per cent saving apply to all local authority expenditure, or only to the grant element that is received from the Government?

John Swinney: The 2 per cent efficiency saving relates to the old aggregated external finance element, for which the baseline was set in 2007-08. It would be 2 per cent in year 1, 4 per cent in year 2 and 6 per cent in year 3. That is only a component of total local authority expenditure, which will be of the order of £8 billion—is that correct?

Graham Owenson (Scottish Government Public Service Reform Directorate): The total local government gross expenditure will be of the order of £19 billion or £20 billion.

John Swinney: Will the efficiency savings apply to only about £8 billion?

Graham Owenson: They will apply to £8.7 billion.

David McLetchie: I asked about this issue last week. Local authorities get £11.1 billion in grant from the Government, and on top of that they raise perhaps another £2 billion in council tax—if my numbers are roughly correct—along with other revenues for charges and so on, so that they are spending—I think Mr Owenson said—£19 billion or £20 billion. Why, then, do the efficiency savings not apply to the totality of expenditure? You are talking about efficiency in spending programmes, so if those total £20 billion, why do you not want 2 per cent per annum efficiency savings for the totality of the programme?

John Swinney: We are applying the 2 per cent efficiency target to the dedicated Government grant aspect, and arriving at a calculation to ensure that local authorities are given a fixed target that they have to achieve. They operate in a climate in which they have to maximise the efficiency and the value within their expenditure, and they have other opportunities to do that through their other sources of finance.

David McLetchie: I find that slightly odd. I would think that one would want efficiency in relation to the expenditure on a programme to be measured by reference to the totality of the spend on a programme, not by reference to how much of it is funded by one bit of a grant. That seems to be a slightly odd way round.

John Swinney: I am, in essence, explaining our mechanism for arriving at an efficiency savings target. I work on the assumption that local authorities are working to ensure efficiency across the totality of their expenditure. As a consequence, they have the ability to deliver those efficiency savings across a much larger range of items of expenditure than would be the case under the mechanism for calculating the target.

David McLetchie: What is the difference between the £11 billion in grant, which I think is the totality of the funding, and the £8.7 billion that you mentioned? What does that figure represent? Why is the target 2 per cent of £8.7 billion rather than, shall we say, 1.6 per cent of £11.1 billion? What is the logic of that? Considering the expenditure as a whole, why is the figure not 1 per cent of £20 billion, if that is the total expenditure? I am not clear why a percentage of the £8.7 billion is the basis for the target.

John Swinney: In essence, we have applied a 2 per cent efficiency saving target to the core aggregate external finance support that the Government gives to local authorities. There is another tranche of expenditure that was formerly ring-fenced grants, but which is now deployed to local authorities. We have taken the baseline from the start of the spending review and allocated that money to local authorities, but without calculating an efficiency savings target that is based on that amount. That is how we arrive at a sum of money that is to be delivered by local authorities as their contribution to the efficient government programme. One could argue that that approach provides a much greater opportunity for local authorities to manage the financial pressures that they are under, because the efficiency targets are perhaps of a different order to those in other areas of the public service.

David McLetchie: In essence, the figure is presentational. You choose to say that the target is 2 per cent efficiency savings per annum on £8.7 billion, but equally you could have a lower percentage target if you had chosen a different base, such as the total amount of grant or the total expenditure. The figure of 2 per cent is presentational—it is just for the purpose of arriving at a number and presenting a target. You could have applied another figure to achieve the same result, depending on the expenditure on which you chose to base the target.

John Swinney: I have set out the mechanism for calculating a target. The target must then be delivered and it must be evidenced that it has been delivered. Therefore, the target has a purpose and role in that respect. The reason why there are many aspects to which efficiency savings cannot be applied is that we cannot be absolutely certain that those items of income will be generated by individual authorities. If we applied a target across the board, there might be a tail-off in income in some areas, which would cause financial difficulties for local authorities.

David McLetchie: I did not suggest that the efficiency saving target should be applied to an income source; I was talking about applying it to expenditure.

John Swinney: Some of the expenditure will be anchored by an assumption on income. Sometimes, those assumptions may prove to be not valid.

Mary Mulligan: The target is for 2 per cent efficiency savings across the board, which in the past 12 months some local authorities have found to be difficult. There have been staff reductions and increased charges for services. Do you intend to review the programme to make it more appropriate for local authorities?

John Swinney: Last Friday, I published the efficiency outturn report for the financial year 2007-08, which shows that the target for local government was to deliver cash-releasing savings of £327 million and that local government in fact delivered cash-releasing savings of £468 million. A feature of almost all the efficient government reports under both the current and previous Administrations—last Friday's report is the only one that we have published—has been that local government has contributed more significantly than was required.

In answer to Mary Mulligan's other question, I do not have any plans to change the efficiency assumptions.

Mary Mulligan: The global sum that the cabinet secretary has given does not answer my question. Within that global sum, some authorities will have found it more difficult than others to achieve the efficiency savings. I expect that local authorities will find it more difficult year on year to meet the target, so let me ask the question again. Do you have any intention of reviewing the target?

John Swinney: I do not have any intention of reviewing it. I accept that efficiency savings are a challenge. A target set at a flat rate of 2 per cent can be more challenging for authorities that took the lead earlier in the process to make their operations more efficient. Those authorities may be doing more. I appreciate that that presents a challenge, but I certainly have no intention of changing the efficiency assumptions.

The Convener: For the record, I want to ask about the £70 million of additional support for the council tax freeze. We have heard your position on that, but in evidence to us last week the councils said that they would need to discuss their response. Have they had that discussion? Are you aware of that response? Have the local authorities made any representations that the £70 million will be insufficient for their needs at this time?

John Swinney: The COSLA leadership has certainly recounted to me discussions within local government about the wider financial situation. COSLA has raised with me the funding pressures that local government faces. Clearly, the decision on whether a council freezes its council tax is entirely a matter for that council. I will continue to make available resources to fund the council tax freeze during the period of the spending review, but it is for each individual authority to decide whether it wishes to implement that.

The Convener: The council tax freeze was made possible only by the generous financial settlement that you provided last year. Without that, you would not have had that success across the country. However, local authorities are now saying that a council tax freeze will be more difficult. You have your clear view. Are you aware whether local authorities are taking the view that £70 million is insufficient? Have discussions begun on what a realistic figure might be? Have you had any representations that the £70 million is insufficient?

John Swinney: As I said a moment ago, I discussed with the COSLA leadership this morning its perspective on funding pressures. Clearly, council tax levels and collection levels are part of that equation. As I said earlier, over the course of the current three-year spending review we will find that inflation will be dramatically different from the 2.7 per cent GDP deflator that was assumed in the budget. For a while this year, inflation has been slightly higher than 2.7 per cent, but for a great deal of next year it will be dramatically lower. Local authorities need to consider their position within that. I will make available to local authorities £70 million to freeze the council tax. I consider that to be adequate for the purpose.

The Convener: We understand your view, which you have made clear. I just wanted to examine whether formal representations have been made to you that the amount that is being made available for an on-going freeze in council tax is insufficient. Has that been raised as a single issue rather than, for example, food price inflation?

John Swinney: Local authorities have raised a wide variety of different questions including about food price rises, fuel price rises and the ageing population.

13:00

The Convener: We are trying to deal with things that are in the public domain. You announced that the council tax freeze would happen and immediately local government sources said that there was an issue about whether there was sufficient funding for it to happen. If it is not an issue with local government, that is fine.

John Swinney: I have said to the committee as clearly as I possibly can that local government has raised a variety of issues with me about the financial situation. I am in the course of taking forward discussions with local authorities on all those points.

Alasdair Allan: How will the Scottish Futures Trust contribute to improving local government's situation? In particular, how will the timetable for the Scottish Futures Trust develop?

John Swinney: The Scottish Futures Trust is now operational and its chairman, Sir Angus Grossart, has been in office for some time. It will shortly progress the appointment of a chief executive and appointments will shortly be made to its board. A debate on the trust will be held in Parliament next Thursday, and I will take part to set out the progress that we are making.

I have already explained to Parliament that I expect the first schools to be commissioned through the mechanism of the Scottish Futures Trust during 2009. We are making good progress in ensuring that we deliver greater efficiency in this aspect of capital expenditure in Scotland. What the Scottish Future's Trust does will be in addition to the £3.5 billion of capital expenditure on a variety of capital spending programmes that are under way throughout Scotland. We will look to enhance the effectiveness and impact of capital expenditure through the work of the Scottish Futures Trust.

I should also point out that we have had a number of discussions with local government about the Scottish Futures Trust and they will continue.

Alasdair Allan: You mentioned greater efficiency. I take it that you are thinking, at least in part, of comparisons with public-private partnerships. What additional efficiency do you believe there will be compared with PPP?

John Swinney: A number of elements lie at the heart of the Scottish Futures Trust. First, there is the aggregation of contracts. Under the existing capital arrangements, projects are procured authority by authority, body by body and area by area, so the ability to maximise efficiency in obtaining capital or in designing projects is dissipated between individual authorities. It strikes me that there is an opportunity to leverage more value from the aggregation of projects and to ensure that effective project management disciplines are available right across the country, rather than having to be constructed in one part of the country without any transfer of expertise when a project has been completed in another part of the country. There is a great advantage to be secured there.

The other element is obviously that we will be working to procure projects at a cheaper cost of capital than is the case under the private finance initiative regime. That aspect has been one of the major criticisms of the PFI regime.

Alasdair Allan: Do you expect that capital funding under the SFT will be totally off balance sheet?

John Swinney: That is a difficult question for me to answer at this stage, Dr Allan, because we await further guidance from the chancellor on how capital investment will be treated when the UK adopts the international financial reporting standards, which, according to the most recent announcement by the chancellor, we expect to be implemented from 1 April 2009. Our understanding is that, with the acceptance of those accounting standards, it is likely that a large number of PFI projects—actually, probably all of them—will come on balance sheet. There will be consequential implications for the working operations of the Scottish Futures Trust, and once we see the detail of the arrangements we will examine exactly what those implications are.

Jim Tolson: The Scottish Futures Trust is like the view outside: it has been surrounded by a mist for a while and we are only starting to see some of the details. I am glad to hear you say that the SFT is operational, but it sounds like it will not start to deliver until next year. It would be helpful if you outlined to the committee some of the details of how it will operate. In particular, over the coming years, it will have to work in conjunction with public-private partnerships for major projects that are already in place. How will the SFT's success be benchmarked and compared against that of PPP projects?

John Swinney: I point out gently to Mr Tolson that, when the previous Administration came to office, it took two years to get any investment of that type under way, so the Government is working well within the dilatory pace at which the previous Administration got its school building programme off the ground. Anyone who wishes to check that should do so, because it is a matter of parliamentary record.

The Scottish Futures Trust's operational direction will be to take forward the objectives that were set out in the business case in May 2008: to deliver an aggregation of projects, deliver greater value in that public investment and secure the investment at a cheaper resource cost. We intend to ensure that the SFT can bring together the work of different authorities and organisations to maximise the effectiveness of the public expenditure.

I point out that the Parliament must consider carefully the proportion of our budget that we can reserve for PFI-style repayments. When the Government came to office, the annual PFI repayments were in the order of £540 million; at the end of this parliamentary session, they will be about £1 billion. It does not need much interrogation to understand that that is a significant and growing financial burden on our revenue budgets. Those budgets are under constant pressure—we have talked about all the issues today—so there is a premium from delivering greater value in that type of investment activity, because of its effect on the Government's revenue budgets.

Jim Tolson: However gently or otherwise the cabinet secretary explains that point to me, I do not think that I am alone in feeling that the issue has been shrouded in a mist for quite a while. Many members and many local authorities in Scotland have felt that. Even COSLA—his partner in the concordat—feels that there is no great clarity on the detail of how the Scottish Futures Trust will operate. It is important that we have more detail from the Government. I look forward to that happening, but there is not enough information on the trust's operation or the comparisons between it and public-private partnerships.

John Swinney: In the interests of cross-party unity, I should respond to Mr Tolson's opinion. Those matters have been set out to the Parliament on a number of occasions and will continue to be set out in the debate next Thursday.

The Convener: Last week, we took evidence from Councillor Graeme Morrice, who is the chair of the COSLA executive group that deals with infrastructure investment. He was puzzled about what was happening, could not explain to the committee what was likely to happen, and suggested—as did his colleagues and officials, I think—that Scottish Government officials had difficulties in following the process and explaining the changing situation.

John Swinney: Scottish Government officials should have no difficulty whatever in explaining the position.

The Convener: They certainly did when they tried to explain it to your COSLA colleagues last week.

John Swinney: I find that a strange proposition, convener. I have personally attended a meeting with Councillor Morrice and others, including Scottish Government officials, which was an entirely constructive occasion. I understand that Sir Angus Grossart met representatives of COSLA only yesterday. I spoke to him yesterday and he said that they had had a very constructive discussion.

The Convener: Well, at last week's meeting, Brenda Campbell, a COSLA representative, said of the Scottish Futures Trust:

> "We have been trying to explore that. With all due respect to the Government officials, they have had some difficulty in trying to flesh out the details as well."—[*Official Report*, *Local Government and Communities Committee*, 29 October 2008; c 1304.]

For the people who have to communicate with each other about that, the issue is very important.

John Swinney: That is an opinion that has been expressed. I can only report to the committee that I have attended at least one meeting—it may have been two meetings—with COSLA on the Scottish Futures Trust, which was very constructive. There was a further discussion of the matter yesterday, and we will continue that dialogue.

The Convener: I could also quote the chief executive of the Scottish Building Federation, who described the same lack of clarity and delay in progress, which he claims will affect any potential savings. I am sure that you have read those comments.

John Swinney: I follow the debate avidly, convener. Your helpful intervention allows me to put two things on the record once again. First, a £3.5 billion capital programme is being undertaken around the country through traditional procurement methods. If the committee were interested, I could name the schools and roads that are being constructed and the very significant amounts of money that are being spent on them. I know that the convener is the greatest supporter of the Government's capital programme.

Secondly, there is a point to be made about the degree of revenue that is now required to service the PFI liability. That is an inescapable factor for Parliament in its budget scrutiny. There comes a point at which we must be aware of the scale of the part of the Government's revenue budget that we are reserving to pay for long-term capital projects for which, in my opinion, we have paid too much money. Parliament must be aware of the financial consequences of the degree of commitment that has been given to that type of capital expenditure.

The degree of discretion that any Government has—whatever colour that Government happens to be—to change the nature of our public spending and our priorities is pretty limited on an on-going basis. If we continue the practice of expanding the amount of revenue that we use to pay for those capital projects without securing more value within that capital allocation, we will store up a revenue problem for future generations that will be even more serious than the one that has already been stored up by the spending of the past few years.

The Convener: Perhaps you could help me with this, as I do not understand it.

John Swinney: I have you on message already, convener.

The Convener: You said again that the £3.5 billion is additional to what will be generated through the Scottish Futures Trust, which puzzles me. How can you say that that money is additional while, at the same time, saying that you cannot tell me whether it is on or off balance sheet? If it is not on balance sheet, we are back to the question of where we find adequate money, which becomes part of the £3.5 billion. How do we square that one?

John Swinney: That is why I make the point that we require clarity from the Chancellor of the Exchequer about how the implementation of the international financial reporting standards will be deployed.

13:15

The Convener: You outlined that you suspect that the new rules will mean that everything is on balance sheet. I ask you to help me here, because I am genuinely trying to understand. If the Scottish Futures Trust is to generate additional funding, but it will not be on the books, how will we get a figure for the funding of our schools and hospitals in the future? How will we get that if the money is all off balance sheet? How much more do you need to find on top of the £3.5 billion?

John Swinney: There will always be a requirement for more capital expenditure than any Government can possibly afford—that is a given. On a daily basis, there is always an appetite for more transport, school and hospital improvements, and that will go on ad infinitum. The question is how we can maximise the value of the investments that we make. My point about PFI is that we have paid too much money for many of the assets that we now have. The Scottish Futures Trust must work to secure greater value from that investment.

We have a question mark over how the IFRS rules will be applied and what implications they will have. However, make no mistake about it: the issues that we wrestle with on the status of IFRS are just as significant as, if not more significant than, those for traditional PFI projects.

I have maintained throughout that the Government has an on-going investment programme of £3.5 billion and I point members to that as an indication of the continuing commitment to support investment in the public infrastructure of Scotland.

The Convener: Why do we need the SFT if the money is all on balance sheet?

John Swinney: Because we must get more value out of the existing commitments to PFI contracts. They have been procured—

The Convener: So the SFT will be like the national health service excellence group: it will not raise or borrow money, challenge for money or manage projects.

John Swinney: It certainly has the potential to raise and borrow money—of course it does.

The Convener: Then it would be Sir Angus Grossart running the schools.

John Swinney: The SFT has a role to perform, on the Government's behalf, in working with different partners to take forward the capital investment agenda. We have asked the SFT to concentrate its efforts on that role.

David McLetchie: I want to clarify something in that respect. If the SFT borrows money to fund a project, the revenue cost of that borrowing will effectively have to be serviced by the Government giving money annually to the SFT. That will be in addition to the pre-existing commitments that you have identified. Is that right?

John Swinney: That is correct, but there is also the opportunity for us to secure more value from the public investment that has been made in many projects already.

David McLetchie: But we already have those commitments. We must pay for deals that have been done, which will have on-going revenue implications for a number of years. You have been critical of them, which is fair enough, but whether you criticise them or not, they exist and we must pay for them. They are not going to be renegotiated or reduced. What headroom exists that can be exploited in the revenue sense to fund further capital projects through, say, the vehicle of your SFT?

John Swinney: That is where the judgment has to be made on what can be afforded in revenue flows to support other activities. We have to arrive at that material judgment once we identify the projects that can be taken forward and the level of finance that can be allocated to support them.

David McLetchie: But that is essentially for the next spending review period rather than the current one. Is that right?

John Swinney: I suspect that it will have implications for this spending review into the bargain.

David McLetchie: In the next again year.

John Swinney: Yes—certainly not in 2009-10.

David McLetchie: So it is a matter for 2010-11—the last year of the spending review period—and subsequent years. Effectively, we have still to determine what the headroom is. That will have implications for total capital spending.

The Convener: At the successful meeting yesterday, did Sir Angus Grossart tell people that, in effect, there will be no extra money for many of the projects with which they would like to proceed? Is that what you mean?

John Swinney: Not in the slightest.

The Convener: Where will the money come from?

John Swinney: We are in the process of establishing the Scottish Futures Trust. The Government is in the process of setting out how the trust will operate and how any future revenue flows will be deployed to support investments in the years to come.

Alasdair Allan: Can you explain some figures that you gave us a minute ago? You mentioned the figure of £540 million, rising to £1 billion, for the Government's commitment to paying out for PFI and PPP projects that it has inherited from its predecessors. At what point in the future will the annual figure start to come down?

John Swinney: If my memory serves me correctly, it will start to come down in about 2020 or 2022.

Alasdair Allan: No further questions, your honour.

Mary Mulligan: I would like to get some more facts and figures on the record. What was the level of funding through PPP over the past three years?

John Swinney: Are you asking about the size of capital expenditure?

Mary Mulligan: Yes.

John Swinney: I cannot give you that figure off the top of my head, but I will write to the committee on the matter.

Mary Mulligan: That will be helpful. What do you expect funding through the Scottish Futures Trust to be over the next three years?

John Swinney: That is part of the operational development of the trust, which we will set out to Parliament in due course.

Mary Mulligan: Do you have an idea of when that will happen?

John Swinney: There will be a debate on the SFT next week. Further details will be set out during the development of the trust.

Mary Mulligan: You raised the issue of traditional funding mechanisms. Yesterday, I noticed that the City of Edinburgh Council has concerns about capital funding, partly because of reduced receipts, especially from land. Are you witnessing that problem throughout Scotland? Are you addressing the matter with COSLA?

John Swinney: There is no doubt that in the current environment, where property values are under pressure, the volume and significance of capital receipts will be an issue. We will explore the matter with COSLA, which has raised it with me.

John Wilson: In the past couple of months, cabinet secretaries have spent time going around the country to sign off single outcome agreements with local authorities. What is your experience of the development of those agreements, which are a departure from previous methods of engagement with local authorities? Was the process adequate, or could it be improved? In evidence to the committee, voluntary organisations indicated that, in the first round of single outcome agreements, they felt excluded from the process. Should local authorities encourage greater participation in the process by other bodies?

John Swinney: Local authorities were encouraged to involve a variety of partners—principally, other public sector bodies—in the formulation of single outcome agreements. They were also encouraged to involve the voluntary sector in all discussions. I accept that the extent to which that happened varied in different parts of the country, but in some areas there was extremely good engagement with the voluntary sector. Some of the work that we have established between COSLA, the Government and the Scottish Council for Voluntary Organisations is designed to encourage a dialogue and to involve voluntary sector organisations in the formulation of single outcome agreements. We want them to play a key part in the design of initiatives and services at local level, so that the input and impact of the voluntary sector is maximised.

The Convener: We have reached the end of the session. I thank the cabinet secretary and his team for giving evidence to us.

Meeting closed at 13:25.

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